

CALIFORNIA COASTAL COMMISSION

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**MEMORANDUM**

December 26, 2006

TO: Local Government Planning Directors
Interested Persons

FROM: Peter M. Douglas, Executive Director

RE: Condominium-Hotel Development in the Coastal Zone

This memorandum provides information to local governments concerning the review of new condominium-hotel (condo-hotels) projects and other interval/restricted hotel developments for consistency with land use policies in applicable Local Coastal Programs (LCPs) and the California Coastal Act. The Coastal Commission conducted a workshop on this topic at its August, 2006 meeting in San Pedro. It provided the Commission with a better understanding of state and national trends and issues relating to condo-hotels versus traditional hotel projects, and identifies potential adverse impacts of such developments on public accessibility to coastal overnight visitor-serving accommodations. The workshop covered legal issues, supply and demand, hotel financing, and operations and management of condo-hotels, as well as an overview of past Commission actions and general concerns related to public access to the coast and the diminishing affordability of overnight accommodations in the coastal zone.

A condo-hotel is a development that has the outward appearance and amenities of a traditional hotel but whose rooms ("units") may be sold as individual condominium ownerships. Owners of these condo units can use them for varying lengths of time or allow hotel management to rent the units to the general public. Owners receive a share of the rental proceeds. Because hotel condominium units are individually owned and subject to no or varying length-of-stay restrictions, they are essentially residential investments and constitute a quasi-residential land use, with the possibility of functioning part time as overnight visitor serving accommodations.

The Coastal Act establishes visitor-serving uses, including overnight accommodations, as a higher priority land use than residential land uses. It also establishes a preference for lower cost visitor-serving accommodations. Because condo-hotels are quasi-residential and may not be subject to length-of-stay restrictions for the owners of individual units, concerns are raised about the extent to which they actually constitute visitor-serving land uses. The burden is often placed on the Commission and local governments to devise enforceable restrictions that limit the private residential use of

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units that are also represented as “visitor serving,” to ensure that the condo-hotels are in fact visitor-serving. In addition, condo-hotels generally do not offer accommodations at what can be considered “lower-cost,” raising questions about the adequacy of supply of lower-cost visitor-serving accommodations in the coastal zone.

At the conclusion of the August, 2006 workshop the Commission directed staff to prepare additional analysis for discussion at a subsequent meeting. Commission staff continues to work on preparing this information and anticipates that the subject of condo-hotels will be scheduled for further Commission deliberations in the spring of 2007. Although the Commission has not yet adopted any recommendations to local government as to how to deal with new condo-hotel projects, this memorandum focuses on two important points.

First, condo-hotel projects and other limited use/fractional ownership hotel proposals should not be considered unless the applicable LCP specifically allows such development. In the absence of specific LCP provisions allowing such projects, the local government should prepare and submit an LCP amendment for Commission review and action.

Second, in order to perform the necessary analysis to evaluate an LCP amendment that would provide for condo-hotel projects, the following information will be necessary:

- A report evaluating the demand and supply of coastal overnight accommodations in the region that includes:
 1. A breakdown of demand and supply by type and cost of accommodations;
 2. An evaluation of whether the region has an adequate supply of overnight accommodation to meet its current and projected demand;
 3. A specific evaluation of supply and demand for lower cost visitor accommodations;
- An analysis of proposed LCP policies and standards, including mitigation requirements, for condo-hotels and fractional ownership or “time share” projects, and
- An analysis of potential mitigation, including contributions to funding lower cost visitor accommodations if there is evidence of deficiencies in the availability of such facilities in the region.

Thank you for your consideration of these comments. Attached is a report prepared for Commission consideration when reviewing condo-hotel projects. In addition, the workshop was recorded, and DVDs can be purchased from the Commission’s San Francisco office. Please contact our District Manager for your region should you have any questions.

Attachment: Addendum Condominium-Hotel Workshop, August 8, 2006

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August 8, 2006

ADDENDUM**W3**

To: Commissioners

From: Deborah Lee, Senior Deputy Director
Rebecca Roth, Federal Programs Manager

RE: Condominium-Hotel Workshop

I. Overview

In May 2006, the Commission directed staff to organize a workshop on the topic of condominium-hotel (condo-hotels). A hotel-condo is a development that has the outward appearance and amenities of a hotel but whose rooms (“units”) may be sold as condominiums to private individuals. The owners of these condo units may live in them or allow hotel management to rent the units to the public and receive a share of the rental proceeds. Because of the individual ownership component, and because the condo-hotels are proposed without use restrictions in place, the developments are considered quasi-residential with the possibility of functioning for part of the year as visitor serving. The Coastal Act provides for visitor-serving use as a higher priority land use than residential, and also states a preference for lower cost visitor-serving accommodations. This is the key public policy issue presented by these development proposals. Because hotel condos are proposed without restrictions on the owners’ use of the units, the burden is placed on the Commission to devise enforceable conditions that insure that the hotel condos are truly visitor-serving and that limit private residential use of the units.

The Commission raised many questions for the workshop to address that dealt with legal authority, supply and demand, financing, hotel operations, past Commission actions, public access, and relative affordability of overnight accommodations. This report contains general background information to provide a context for the Commission’s hotel-condo decisions. While the Commission generally makes decisions on a case-by-case basis, this workshop is intended to provide the Commission a better understanding of the national and state trend, and scope the context and public impact of these developments. The workshop objective is for the Commission to be better informed about individual and cumulative impacts when it considers future hotel-condo projects and LCP amendments. Staff notes, however, that much information about short and long term effects of condo-hotels on overnight accommodations and public access is not available, nor is it being researched per se by public policy/land use institutions. Thus, staff has made recommendations about additional analysis and research that would benefit the Commission in its future decision-making processes.

II. Past Coastal Development Permit History

As early as 1989, the first hotel-condo development along the California coast was proposed in Santa Cruz County. Since then, the Commission has acted on, and either denied or conditionally approved, eleven condo-hotels, two of which were in the past five months. The other approved projects were located in the Counties of San Mateo (Half Moon Bay), Monterey (Monterey County, Marina), San Luis Obispo (San Luis Obispo County, Pismo Beach, Oceano), Los Angeles (Hermosa Beach, Rancho Palos Verdes), Orange County (San Clemente), and San Diego (Encinitas). The projects all contained special conditions that limited the length of time each year that owners could use their hotel-condo units. For example, in some instances, owners were limited to a maximum of seven to 14 days total in the summer months. In the instance of the Highlands resort in Monterey County, the Commission required the applicant to mitigate for the loss of hotel rooms available to the public by paying \$8,000 per room or a total of about \$700,000 to fund a hostel located on the region's state park's land. In addition, all projects were subject to special conditions that involved, for example, requirements for parking, water quality, scenic views, and public access.

In response to the Commission's inquiry about compliance with room use restriction, staff investigated condition compliance and owner usage. Most of the old permits (pre-2006) had imposed special conditions that required annual, and in one case, quarterly reports on owner usage to be submitted to the Commission. Staff requested use occupancy records of all condo-hotels that had been permitted, yet only received the records of four of the previously approved condo-hotels. Of the four records that staff reviewed, all appeared to be in compliance with the owner length of stay provisions. According to the responses, their occupancy levels as hotel units made available to the public were as high as 85%. The other requests were not responded to, and in one instance the operator claimed the information was *proprietary and confidential* even though the permit was conditioned to submit Transit Occupancy Tax records annually to the executive director. The majority of the condo-hotels had on-line booking systems for an overnight stay, with room costs ranging from \$99 to \$605 in the summer months.

Condition compliance of past projects continues to be a challenge for staff. The average number of total permits acted on annually by the Commission in the last five years is close to 1,000. When the sheer number of permits issued by the Commission is considered with staffing and travel budget reductions, it is understandable why it has not been feasible to consistently monitor permit conditions, especially those of complex projects. Because compliance with use restrictions of hotel condos is not externally visible and requires constant monitoring and the good faith of hotel management and the numerous owners of condo units, hotel condos present particularly difficult enforcement issues.

III. Analysis of Coastal Development Permit Conditions of Approval

Commission legal staff was asked to review and revise past special conditions placed on approved coastal development permits to insure that a hotel-condo functions as a visitor-serving project. In a memorandum to the Commission's Executive Director and Senior Deputy Director, legal staff developed conditions that addressed three primary areas of concern (Attachment 1).

First, the conditions seek to restrict condominium owners' use and occupancy of their units so that the units will function as hotel units rather than residences or vacation homes. Next, the conditions also seek to reduce the possibility of noncompliance by requiring that condominium owners and potential purchasers be given notice of the restrictions and legal responsibilities. Lastly, the conditions establish the recordkeeping, reporting and auditing requirements that will assist the Commission with identifying violations and enforcing the restrictions.

In addition legal staff addressed the reality of limited staff time available to monitor condo-hotels to insure these developments remain available to the public. The conditions addressing recordkeeping and reporting include a new provision not previously contained in any prior approved coastal development permit, which is a requirement that the hotel owner-operator retain an independent auditor to regularly review records and audit compliance. Legal staff also noted that the restrictions on use and occupancy present an enforcement challenge for the Commission because the number of units involved and the fact that the restrictions relate to use and occupancy make it difficult for Commission staff to know whether owners are complying with the restrictions and make enforcement more complicated.

IV. Local Coastal Programs

The Commission has approved Local Coastal Program (LCP) policies in three instances that allowed for condo-hotels. All have been located in the central coast: Santa Cruz County, San Luis Obispo (unincorporated community of Oceano), and City of Pismo Beach. Different restrictions in terms of length of stay in the hotel-condo are allowed in all three LCPs (see chart below).

Table 1: LCP Jurisdictions With Hotel-Condo Policies

Jurisdiction	Area Covered	Maximum Annual Stay	Maximum Consecutive Day Stay
Santa Cruz County	Visitor Serving Districts	45 days per year	29 days consecutively
San Luis Obispo County	Unincorporated community of Oceano	84 days per year	29 days consecutively
City of Pismo Beach	Resort Commercial District	30 days per year	30 days consecutively

V. General Background

The following general background information is intended to answer questions and issues raised by the Commission with respect to overnight accommodations, such as: what is the projected demand; what are the national and state trends; what is the current supply, and what is the affordability of the existing stock?

What is the Potential for Increased Demand for Coastal Overnight Accommodations?

Staff was unable to find statistics on demand for coastal overnight accommodations. Absent a vetted study that quantifies the demand of visitors to stay overnight along the coast, population statistics that show increased population, also suggest an increase in demand to stay overnight somewhere along the California coast. In 2000, 77% of California’s population, or just over 26 million people, lived in coastal counties, which represent 25% of the land (NOEP). California’s population continues to grow, with 36 million people statewide in 2005 and a projected growth rate of another 7 to 11 million people by 2025 (CA PPIC, 2005). Between 2005 and 2025, populations are projected to increase by 45% in inland counties, compared to 17% in coastal counties. Despite these uneven growth rates, even by 2040, 60 percent of the state’s residents will still live in coastal counties.

In order to put the ability to pay for overnight accommodations in perspective, the median household income for California residents in 2003 was \$48,440. Nine of the 16 coastal counties have median household incomes that are higher than the state median household income.

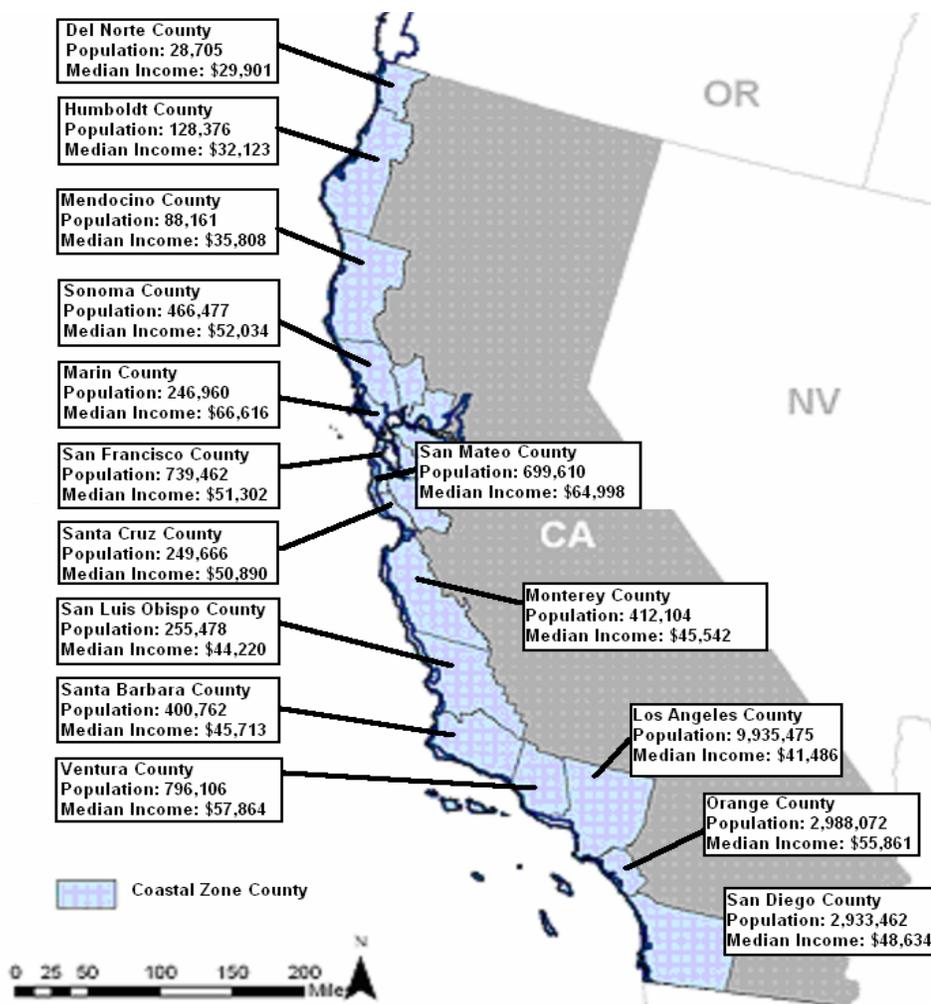


Figure 1: Population and Median Household Income by Coastal County

What is the National Trend of Overnight Accommodations as Compared to California?

There are more than 12,000 hotels, RV parks, and campgrounds in coastal counties nationwide, including the Great Lakes coast, available for residents and visitors seeking overnight accommodations along the coast (NOEP). Florida and California offer the most properties, with 2,178 and 1,742 respectively.

Table 2: 2005 Coastal County Accommodations for Florida, California and Nation-wide

2004 Coastal County Accommodations				
	Hotels/ Lodging	RV Parks/ Campsites	Total Properties	Coastal County Population
Florida	2,063	115	2178	17,397,161
California	1,678	64	1742	27,261,347
Nationwide	11,381	667	12048	110,888,430
Source: National Ocean Economics Project				

What are the California-Specific Overnight Accommodations and Their Relative Affordability?

Staff reviewed the total number of properties in the coastal counties and found information relative to the state’s nine most sought after coastal visitor serving destinations. Out of more than 1,600 hotels, RV parks and campgrounds in California’s coastal counties, only 134, or 7.9%, are low cost accommodations within the coastal zone (NOEP; Coastal Access Guide). The 134 low cost overnight accommodations include not only RV parks and campsites, but also lower cost hotels and hostels whose room rates are less than \$100 a night. The below Table 2 shows the average occupancy and room cost by county. On average all coastal *counties* exceed the \$100 per night affordable rate. Unfortunately data relative to overnight accommodations within the coastal zone, as opposed to the entire county, was not available.

Table 3: Low Cost Visitor Accommodations for Nine Coastal Counties in 2005

2005 Low Cost Visitor Accommodations (LCVAs) for Nine Coastal Counties								
Coastal County	Total Properties	Total Rooms	Avg Occupancy	Avg Room Rate	# LCVAs (Coastal Zone)	% Total LCVAs (Coastal Zone)	Population (2005)	Median HH Income (2003)
San Diego	452	53,584	72%	\$123	12	8.9%	2,933,462	\$48,634
Los Angeles	980	95,681	76%	\$103	14	10.4%	9,935,475	\$41,486
Santa Barbara	123	8,764	-	-	12	8.9%	400,762	\$45,713
Monterey & Santa Cruz	-	-	68%	\$118	19	14.2%	412,104 (M) 249,666 (SC)	\$45,542 (M) \$50,890 (SC)
San Francisco & San Mateo	399	51,021	73%	\$125	3	2.2%	739,426 (SF) 699,610 (SM)	\$51,302 (SF) \$64,998 (SM)
Humboldt & Del Norte	69	3,023	63%	\$65	4	3.0%	128,376 (H) 28,705 (DN)	\$32,123 (H) \$29,901 (DN)
Statewide *add'l counties included	-	-	70%	\$102	134	-	36,132,147	\$48,440

Source: VisitCA

What are the Low Cost Visitor Serving Accommodations Along the Coast?

The California Coastal Guide lists 134 low cost accommodations within California's coastal zone. Low cost accommodations are those with costs of less than or equal to \$100 per night, and include hostels, campsites, RV parks, and low cost hotels. Attachment 2 is table depicting low cost visitor serving accommodations. Also attached as exhibits are maps depicting where these lower cost accommodations are located in Southern California (see maps 2 and 3) and in most of the Central Coast (see map 1).

What is the Demand for Low Cost Overnight Accommodations Along the Coast as Evidenced by Hostel Use and State Park Demand?

Hostels

There are 10 hostels along the coast between the Marin Headlands and San Diego, offering accommodations for approximately \$14 per person. Hostel locations include popular tourist destinations such as Marin, San Luis Obispo, Santa Cruz, Monterey, Long Beach and San Diego. In Santa Monica, the average occupancy rate in 2005 was 96%, with the *hostel completely full about half of the year*.

California State Parks

California State Parks owns 1.5 million acres of land, with over 295 miles of ocean front property. Coastal state parks provide half of the total coastal land open to the public in California. 77 million people visited California State Parks in the 2004-2005 fiscal year. Nine of the 10 most visited parks in 2004 were along the coast.

Table 4: 10 Most Visited California State Parks in 2004-2005
***Bold Type Indicate the Park is Within the Coastal Zone**

10 Most Visited State Parks in 2004-2005
1. Old Town San Diego State Historic Park
2. Huntington State Beach
3. Sonoma Coast State Beach
4. Seacliff State Beach
5. Bolsa Chica State Beach
6. San Onofre State Beach
7. Doheny State Beach
8. Oceano Dunes State Vehicular Recreation Area
9. New Brighton State Beach
10. Malibu Lagoon State Beach.
Source: CA Parks

State Parks Campsite Demand

The demand for campsites at California State Parks grew by approximately 13% between the years 2000 and 2005.

Table 5: California State Parks Family Campsite Reservations

California State Parks Family Campsite Reservations		
Year	2000	2005
Reservations	280,000	320,000
Source: CA Parks		

State Park Campsites

There are over 6,000 campsites within California's coastal zone. 25% of the campsites are in San Luis Obispo and 14% in San Diego. In 2005, camping fees in the California State Park system ranged from \$9 to \$25 per night for a campsite (CA Parks).

Table 6: Number of Campsites by County

California State Parks Campsites within the Coastal Zone			
County	# Campsites	County	# Campsites
Del Norte	312	San Francisco	16
Humboldt	229	San Luis Obispo	1,488
Los Angeles	258	San Mateo	205
Marin	140	Santa Barbara	377
Mendocino	444	Santa Cruz	396
Monterey	276	Sonoma	201
Orange	373	Ventura	610
San Diego	864		
Total Campsites within Coastal Zone: 6,173			
Source: CA Parks			

Non-Campsite Low Cost Overnight Accommodations: Crystal Cove State Park

The Crystal Cove State Park, located between Newport Beach and Laguna Beach, provides 13 low cost beach-side cottages for overnight visitors. There are 11 individual cottages that sleep between 4 and 9 people and range in price from \$115 to \$325 per night, or \$29 to \$36 per person per night. Rooms in the two dorm style cottages cost approximately \$25 per person per night.

Clear pent up demand for low cost beach-side accommodations in this area is seen in the reservation demand for Crystal Cove. 16,000 people tried to reserve a cottage on the first day for reservations, and within just a few hours the cottages were sold out for seven months (OC Register). The majority of visitors staying overnight at Crystal Cove came from Orange County and a few came from places such as Alabama and Chicago.

What are Region Specific Case Studies?

San Diego County

San Diego County has an overall population of 2,933,462 (US Census, 2005). The City of San Diego is California’s second largest city with a city population of nearly 1.3 million in 2005. In 2005, more than 27 million people visited San Diego County, of which nearly 16 million stayed overnight (SDVCB). Approximately 40% of overnight visitors in 2005 were from California. San Diego County has over 70 miles of coastline along the Pacific with 11 public beaches.

In San Diego County, there are 452 hotels and lodging accommodations, with casinos and health spas adding another 82 (VisitCA). According to the 2003 California Coastal Access Guide, only 12 properties were low-cost accommodations. The average daily room rate in San Diego County for 2005 was \$122, with a peak rate of \$136 in July (SDVCB). The average occupancy rate for the same year was 72.3%, with a peak rate of 86% in July. *Note, as a general rule of thumb, properties need an annual occupancy rate of between 60% and 70% to break even.

Table 7: San Diego County Accommodations Summary for 2005

San Diego 2005 Accommodations Summary						
2005 Visitors	2005 Overnight Visitors	% Overnight Visitors in Hotels	Avg Occupancy Rate	Avg Room Rate	Total Properties	Low Cost Properties
27,151,000	15,800,000	55.1%	72.3%	\$122	452	12
*Source: San Diego Convention and Visitors Bureau						

Newport Beach, Orange County

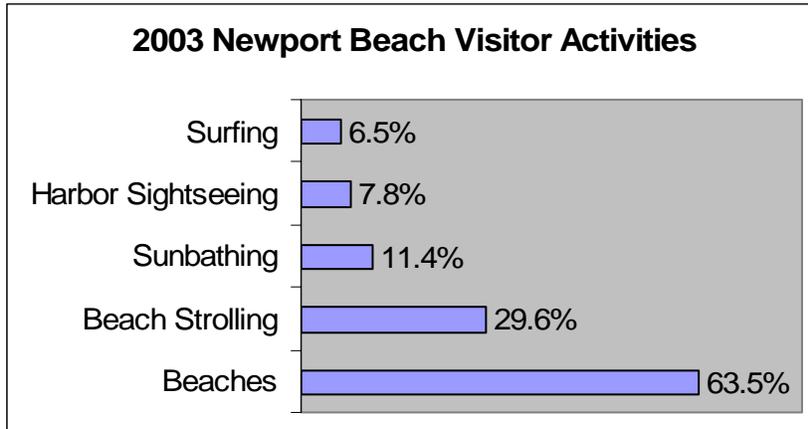
In 2003, there were just over 7 million visitors to Newport Beach, of which less than 1 million stayed overnight at Newport Beach accommodations. In Newport Beach, there are 16 hotel and motel properties, providing a total of 2800 guest rooms. Three of the 16 properties are classified as “Low Cost” accommodations (<\$100 per night), four are classified as “Mid-market”, and nine are classified as “Luxury”. The average occupancy rate in 2000 was 74.5%, with peak occupancy rates of over 80% in July and August. Orange County overall had an occupancy rate of 74.3% in 2005.

Table 7: Newport Beach Accommodations Summary for 2000

Newport Beach Accommodations Summary for 2000					
2003 Visitors	2003 Overnight Visitors	Occupancy Rate	Avg Room Rate	Total Properties	Low Cost Properties
7,058,440	869,440	74.5%	\$148	16	3
Source: Newport Beach General Plan Update					

The results of a 1998 Newport Beach visitor use survey revealed an average of 1.57 million visitors per beach-mile between the Santa Ana River and Newport Harbor (Chapman, Hanemann & Ruud). For 1998, that means approximately 7.8 million people (residents and visitors combined) visited this stretch of beach. Also, in 2003, 63.5% of all visitors to Newport Beach made a trip to its beaches to enjoy beach-related activities.

Figure 2: Beach-Related Newport Visitor Activities in 2001



VI. Information Gaps and Next Steps

This workshop will be an important first step in educating the Commission, staff, and public about condo-hotels. Yet limited information was available to answer the many questions relative to the broader public policy issues invoked in this discussion. The below listed questions focus on areas where there are information gaps that have not been addressed by the workshop. Staff recommends that the Commission seek additional information on this important policy matter. .

Information Gaps

- What is the supply/demand of coastal overnight accommodations by region and by cost?
- What will the cumulative effect be on the average Californian wishing to stay on the coast for vacation in terms of available and affordable overnight accommodations?
- What has been the effect over time on visitor use of the coast with less than eight percent of all coastal accommodations meeting the \$100 or less criteria of affordable?
- How should the Commission and local governments evaluate whether a region has adequate overnight accommodation supply to meet its current and projected demand?
- What is the demand for coastal access versus overnight accommodations, access along the shore, and visual access? (Could information be provided from an independent survey?)
- Region by region and statewide, is there a mix of economic levels of visitor serving uses throughout the coast?
- How can the Commission encourage and promote the development of lower cost visitor accommodations and other high priority uses?
- What kinds of partnerships are needed to address the apparent deficit in lower cost accommodations?
- Should LCPs provisions be amended to reflect standards requirements and mitigation needs for condo-hotels, given that they are not currently recognized as high priority visitor-serving uses in most LCPs?